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Brian R Naranjo 03/18/2002 08:21:49 AM From DB/Inbox Brian R Naranjo

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TELEGRAM

March 15, 2002

Chron in

To: SECSTATE WASHDC - IMMEDIATE
Action: WHA
From: AMEMBASSY CARACAS (CARACAS 687 - IMMEDIATE)
TAGS: ECON, EPET, ENRG, VE
Captions: None
Subject: PDVSA: "OPERACION MORROCOY" UPDATE
Ref: CARACAS 586

RELEASED IN PART
B1, 1.4(D)

1. Classified by Ambassador Shapiro; for reasons 1.5 (B) and (D)

SUMMARY

2. (U) Dissident managers of the state-owned Petroleos de Venezuela (PDVSA) announced a proposal March 13 to restructure the PDVSA Board. On the same date, the President of Fedepetrol, the major union representing blue-collar oil workers, announced the union's support of the protesting managers. PDVSA, already weakened in the first three years of the Chavez government is bound to be further damaged. End Summary.

UPDATE ON THE PDVSA CRISIS

3. (U) After the March 10 announcement of a PDVSA-wide slowdown known as "Operacion Morrocoy" (a morrocoy is a tortoise), PDVSA employees called off another planned four-hour walkout on March 12 due to concern that it would not be effective. Senior PDVSA managers then held a press conference late afternoon March 13 to announce a proposal to restructure the PDVSA Board. In their proposal, there would be "external" Board members drawn from civil society and other GOV institutions whose interests would focus on general energy policy. "Internal" directors, drawn from within the PDVSA meritocracy would be responsible for the commercial operation of the company.

4. (U) Although their demands have ratcheted up to include the removal of the entire Board, the spokespersons underlined that they wished to find a solution to the impasse through dialogue and that PDVSA employees would continue to do their work. The press conference, held in a Caracas hotel, was mobbed by PDVSA employees who turned it into a pep rally of sorts, with chants such as "we're not afraid." One employee told Econoff immediately afterwards that at least 68 percent of the company's managerial and administrative employees support efforts to force a change in the Board.

5. (U) Fedepetrol, the main union representing blue-collar oil workers, also announced on March 13 its support for the actions of dissident PDVSA managers. During a news conference, Fedepetrol President Rafael Rosales gave the new PDVSA Board 15 days to respond to the demands laid out by PDVSA workers. The union has ruled out a strike for the time being.

6. (U) The Chavez Administration, however, continues to reject demands for resignation of the new Board. Speaking in a March 13 radio interview, Vice Minister Bernardo

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Alvarez said removing the Board is out of the question ("President Chavez legally appointed the new Board") but that the government is ready to discuss restructuring plans and operations. Negotiations between senior PDVSA managers and the Government, particularly with PDVSA President Parra and Vice President Cabello, continue.

7. (C) PDVSA usually receives an annual bonus in January. This year it is has been late in coming. The Government, however, in the midst of the crisis has moved on the bonus issue. PDVSA President Parra is making use of the bonus to argue that he has fought for PDVSA employees and done more for them than General Lamada had.

WHY THE CRISIS WITHIN PDVSA?

8. (U) This is not the first time that a petroleum industry outsider has been appointed to the PDVSA presidency - General Lamada himself was the most recent example. Other political appointments have been made to the PDVSA Board, and other governments have sought to take advantage of PDVSA's financial strength. What is new, however, is the appointment of a President who not only lacks any managerial experience but whose professional life has been marked by its opposition to the policies and values of PDVSA. The virtual wholesale change of the PDVSA Board is also unprecedented. The Ministry of Energy and Mines (MEM) has busily been publishing the CVs of the new Board members to underline their extensive experience in PDVSA and the oil industry. But long time industry observers note that

they are lightweights better known for their politics than the depth of their managerial experience or knowledge of the oil industry.

9. (U) This situation is made more serious by changes made in the management structure of the company during the 1994-1999 Giusti era. By the time Giusti became PDVSA President, PDVSA united three dominant corporate entities under a PDVSA management umbrella. Each of the three components - Maraven, Lagoven and Corpoven - had its own President, Board and management. Each of these components reflected the professional corporate culture of the international oil company which had owned it prior to the 1976 nationalization, i.e. Maraven with Shell etc. This structure tended to shield the operational parts of the company from the political whims of the day which would be reflected in the umbrella Board. In 1997, however, Giusti, rationalized and streamlined this structure, eliminating the separate corporate entities and giving members of the PDVSA Board actual management control over company activities such as exploration and production and so on.

10. (U) This crisis is also impacting on a company that had already been significantly weakened by its three year battle with the MEM which has been steadily accreting power at the expense of PDVSA. PDVSA has already lost a significant portion of its most senior and experienced managers in the last three years in a series of three (the most recent in January) rounds of retirement incentives. Even before this crisis, international oil company (IOC) representatives reported that PDVSA has been virtually paralyzed with all significant decisions being funneled through the PDVSA hierarchy to the Board and then to the Ministry.

11. (U) No matter what the external political impact is of the PDVSA crisis, the atmosphere within the company is increasingly poisonous. PDVSA insiders report that employees are now wearing buttons showing their political preferences, i.e. a button reading "no to politicization; yes to meritocracy" is a vote of support for PDVSA's dissident senior managers. Both sides allege that

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employees are being coerced. As this unfolds, very little work is getting done.

CRISIS IN THE REST OF THE INDUSTRY?

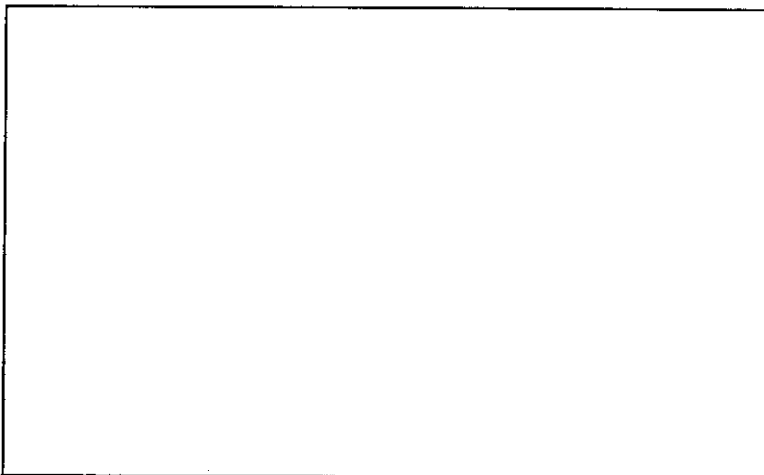
12. (U) Econoff attended the March 12 weekly meeting of the Venezuelan Petroleum Chamber Board and found consternation not only about the crisis within PDVSA, but also over inaction in the face of a growing crisis in the domestic petroleum supply industry linked to the recent devaluation. Chamber members report that their contracts do not include clauses protecting them from devaluation of inflation risk. Interest rates have been driven up so high that they are effectively cut off from borrowing. PDVSA itself is adding to this crisis with a significant slowdown in its billing process. Chamber members report that the company is now paying bills at least a month late and one source informed an Embassy FSN that PDVSA's chemical affiliate, Pequiven, is lagging three months behind. This slowdown is not just reflected in billing but in every aspect of PDVSA's corporate activities.

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